Industrial Distribution

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July 1986

Hotline:

Distributors unduly concerned over rash of leveraged buyouts

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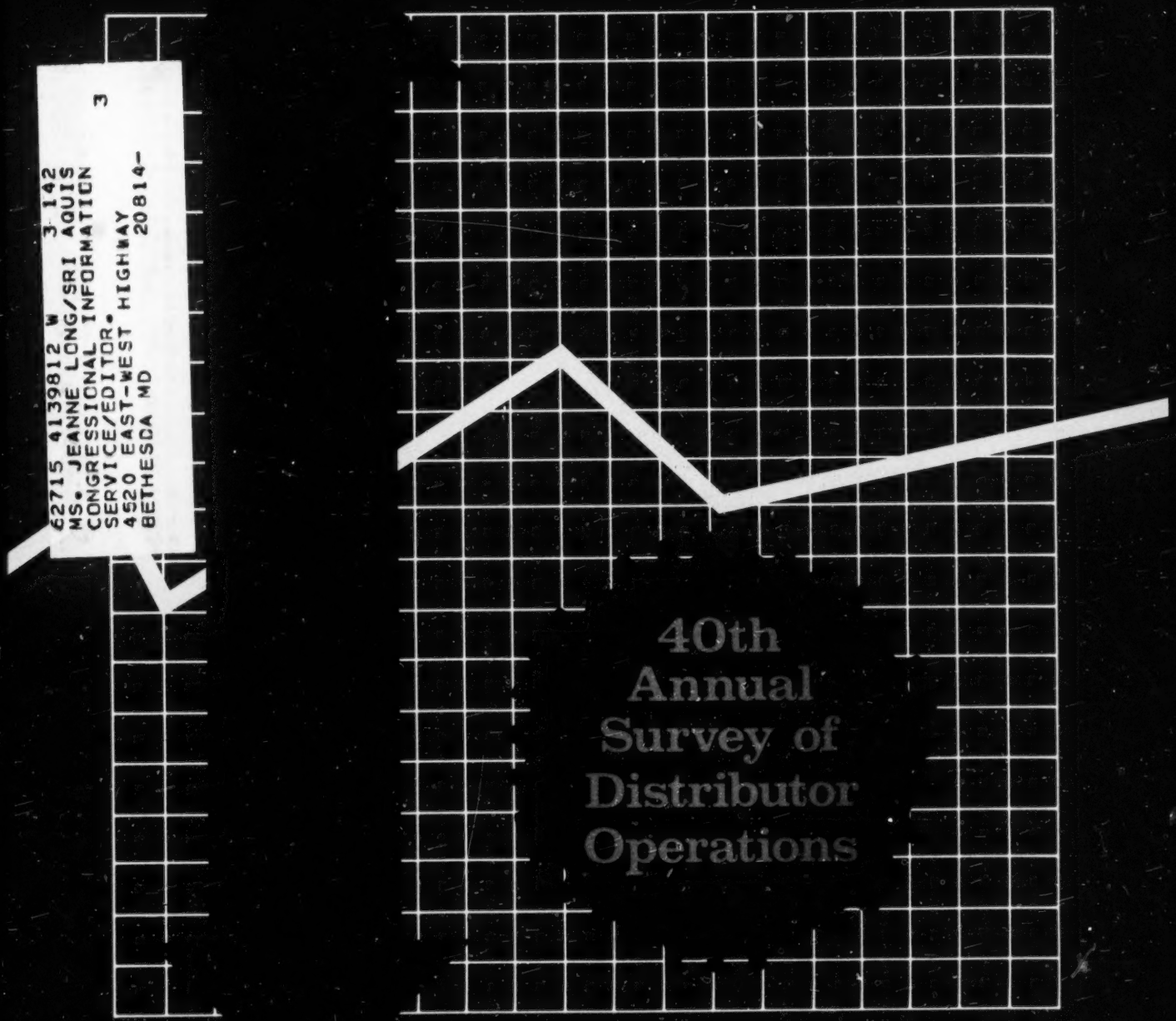

ID 75 Industrial Distribution

VOL. 75, NO. 7/75th yr. A TECHNICAL PUBLISHING PUBLICATION JULY 1986

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Industrial Distribution, (USPS-889-860) is published monthly by Technical Publishing, a Division of Dun-Donnelley Publishing Corporation, a Company of the Dun & Bradstreet Corporation, John K. Abely, President. EXECUTIVE, EDITORIAL AND ADVERTISING OFFICES, 875 Third Ave., New York, NY 10022. (212) 605-9400. Second class postage paid at Barrington, IL 60010 and additional mailing office.

Postmaster: Send address changes to Industrial Distribution, Circulation Dept., P.O. Box 1063, Barrington, IL 60010.

Microfilm or reproductions of issues or articles are available. Write Xerox University Microfilms, Ann Arbor, MI 48106.

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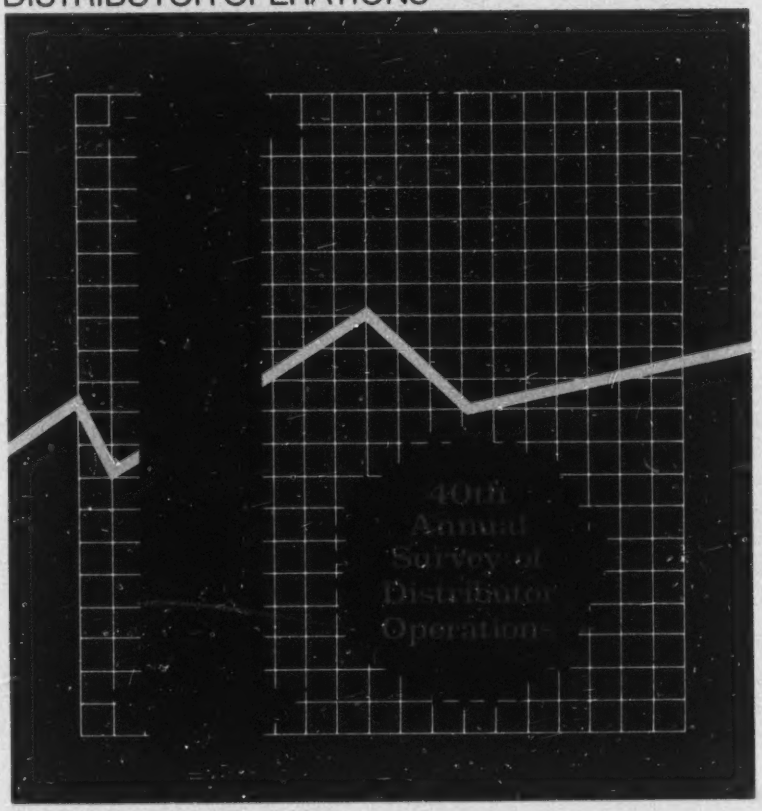

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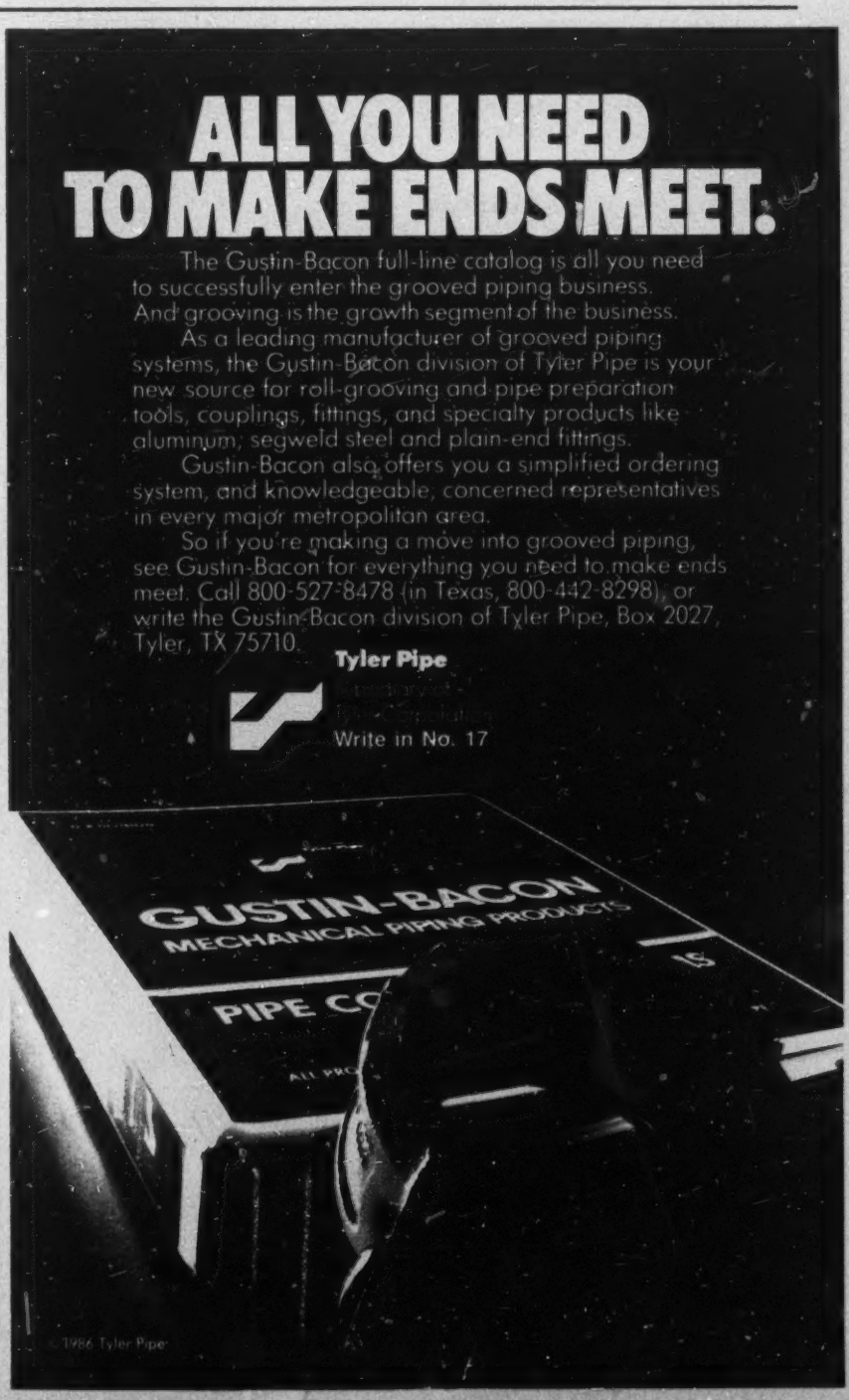
INDUSTRY NEWS...

Indicators...

The most recent sales data available from the three key associations show one advancing moderately, one advancing slightly and one declining slightly. According to the NIDA/SIDA *Industrial Distribution Index* for April, on a national basis the Index rose 7.4 points over March closing at 144.3. Every area of the country moved ahead. The East gained 5.8, the Midwest rose 5, the West grew an impressive 16 points and the South moved ahead by 6 points. Despite the move upward in April '86, the Index still trails April '85 by 3.7...SIDA's *Monthly Sales Trend Report* for March showed a negligible 1.62 increase over February, primarily the result of a 17.69 drop in SIDA Area III which comprises AL, KY, MS, and TN. The other SIDA areas fared better: Area I (NC, VA, WV) increased by 7.45, Area II (FL, GA, SC, Puerto Rico) advanced 4.05 and Area IV (AR, LA, OK, TX) gained 2.77. In a March '86/March '85 comparison, the current month is down 6.34 from last year, resulting from losses in three of the four regions particularly Area III which fell 19.89 from March '85...the ASMMA *New Order Index* for March fell 3.7 points or 3.1% from February to close at 116.4. The figure is the lowest reported in 1986 and lower than all but three of the last 27 months...The American Machine Tool Distributors' Assn. (AMTDA) Index of *Distributor New Orders* for March shows an increase of 7.9% over February to close at 112.8. The figure is 1.3% behind the March 1985 Index of 114.3...According to the National Electronic Distributors Assn. (NEDA), both bookings and shipments declined in April from the previous month. Bookings fell by 4% from March but exceeded April '85 by 25% while shipments dropped 5% but registered a 10% increase over April '85.

& Decker's reasons for selling the industrial air tool business:

- To be a dominant factor in the industrial air tool business requires an extremely broad line of tools, many of which are specialty- type product for unique applications and thus offer very low volume potential.
- Though we share a similar distribution network between industrial electric and air products, the selling task is substantially different. Air products require a great deal of specialization unique only to this product category.
- Finally, the industrial air market is dominated by a few major compet-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BUSINESS REPORT

Midwest doldrums persist

Despite a few areas in the midwest showing signs of coming out of the long business slump following the turnaround in 1984, the midwest doldrums persist as reports of lackluster sales continue to dominate the BUSINESS REPORT returns.

The heavily industrialized midwest, with Chicago at the center, is significant in this industry since traditionally this area is believed to signal that if a turnaround is impending, it will happen here first.

For a handful of distributors in the region, the turnaround is here. In southern Michigan, for example, the food processing industry (Kelloggs, Post) has picked up. Also on the move in the midwest are cutting tools and machine tools along with general industrial supplies. But in Benton Harbor in southwest Michigan, most of the job shops dependent on the automotive industry are still in decline.

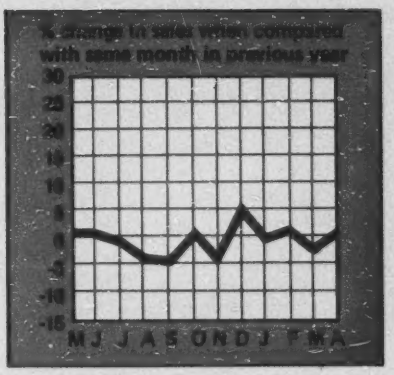
With 1986 the year for contract renewals in the automotive industry, manufacturers, it appears, have already stockpiled autos in anticipation of strikes, causing the present sluggishness in dependent businesses.

The Chicago area has been flat for the past several months, with business reported slow at the local tool and die shops that are also automotive related. But some new business is forthcoming from suppliers of electronics tools and fasteners, as industrial distributors report some new start ups of electronics-related businesses.

Nationally, sales increased slightly from last year, up only 1% (see graph). However, month-to-month statistics, more indicative of immediate business conditions, show an improvement of 6% (see Regions below). Cumulative reporting, the first 4 months of 1986 compared to the same period in 1985, averages out to only a 1% gain.

Receivables (days outstanding) have dropped two days for both general liners and specialists since February, perhaps reflecting the benefits of low inflation and low interest rates.

—MILT ELLENBOGEN



RECEIVABLES*

	April '86 vs. April '85			
	Gen.	Spec	Gen.	Spec.
New England	40	46	41	45
Middle Atlantic	43	45	47	44
South Atlantic	40	34	36	34
East No. Central	41	39	41	40
East So. Central	40	24	41	28
West No. Central	36	—	38	—
West So. Central	37	42	—	39
Mountain	34	40	39	45
Pacific	41	44	43	43
National	39	39	41	40

* Average days outstanding

SALES BY REGIONS (% change)	Apr.'86 vs. Mar.'86			Apr '86 vs. Apr '85			1st four months'86 vs. 1st four months '85		
	Gen.	Spec.	Both	Gen.	Spec.	Both	Gen.	Spec.	Both
NEW ENGLAND: CT, RI, MA, NH, VT, ME	+10	0	+5	−4	−9	−6	−10	−5	−7
Connecticut	—	—	—	—	—	—	—	—	—
Massachusetts	−3	—	—	−5	—	—	−3	—	—
MIDDLE ATLANTIC: NY, NJ, PA	+15	+2	+5	+7	+9	+2	−5	+2	0
New York Metropolitan Area	+7	−6	−2	0	+9	+5	−7	+3	−1
Upstate New York	—	+15	—	—	0	—	—	+2	—
Pennsylvania	+17	+10	+11	+17	+8	+9	+2	0	0
SOUTH ATLANTIC: DE, DC, MD, FL, GA, NC, SC, VA, WV	+6	0	+3	−4	+2	−1	−5	−3	−4
Georgia-Florida	+7	−1	+1	+6	−2	0	0	−5	−4
EAST NORTH-CENTRAL: OH, IN, IL, MI, WI	+6	+8	+7	+5	+14	+9	+1	+8	+4
Indiana	—	+16	—	—	+10	—	—	+5	—
Wisconsin	+4	+6	+5	+24	+7	+12	+23	+2	+7
Chicago	—	—	—	—	—	—	—	—	—
Michigan	+11	+14	+13	+15	+22	+19	0	+11	+7
Ohio	−2	+29	+1	−4	+5	−3	+24	−7	+20
EAST SOUTH CENTRAL: AL, MS, KY, TN	+16	+12	+15	+19	−13	+9	+10	−5	+6
WEST NORTH CENTRAL: MN, ND, SD, IA, NE, KS, MO	+17	+17	+17	0	+1	+1	−6	−3	−5
WEST SOUTH CENTRAL: AK, LA, OK, TX	+1	−29	−22	+2	−14	−10	−5	+7	+4
Texas	—	+15	—	—	+3	—	—	−7	—
MOUNTAIN: NM, AZ, CO, UT, NV, WY, MT, ID	+1	−32	−14	+5	0	+3	+3	+22	+11
PACIFIC: CA, OR, WA	+14	+12	+13	+11	−3	+6	+8	0	+5
L.A.-San Diego	+16	+13	+15	+15	−7	+12	+11	+5	+10
Oregon-Washington	+11	+15	+13	+6	−5	−1	+7	−5	0
U.S. TOTALS	+11	+1	+6	+4	−2	+1	0	+2	+1

Sales manage slight increase in 1985

Although industry sales for distribution hit $50 billion in 1985, the increase, when adjusted for inflation, was small as were profits. Coming on top of some sparkling statistics for 1984, which followed a recession year, 1985's performance was, with the exception of certain categories for specialists, unimpressive.

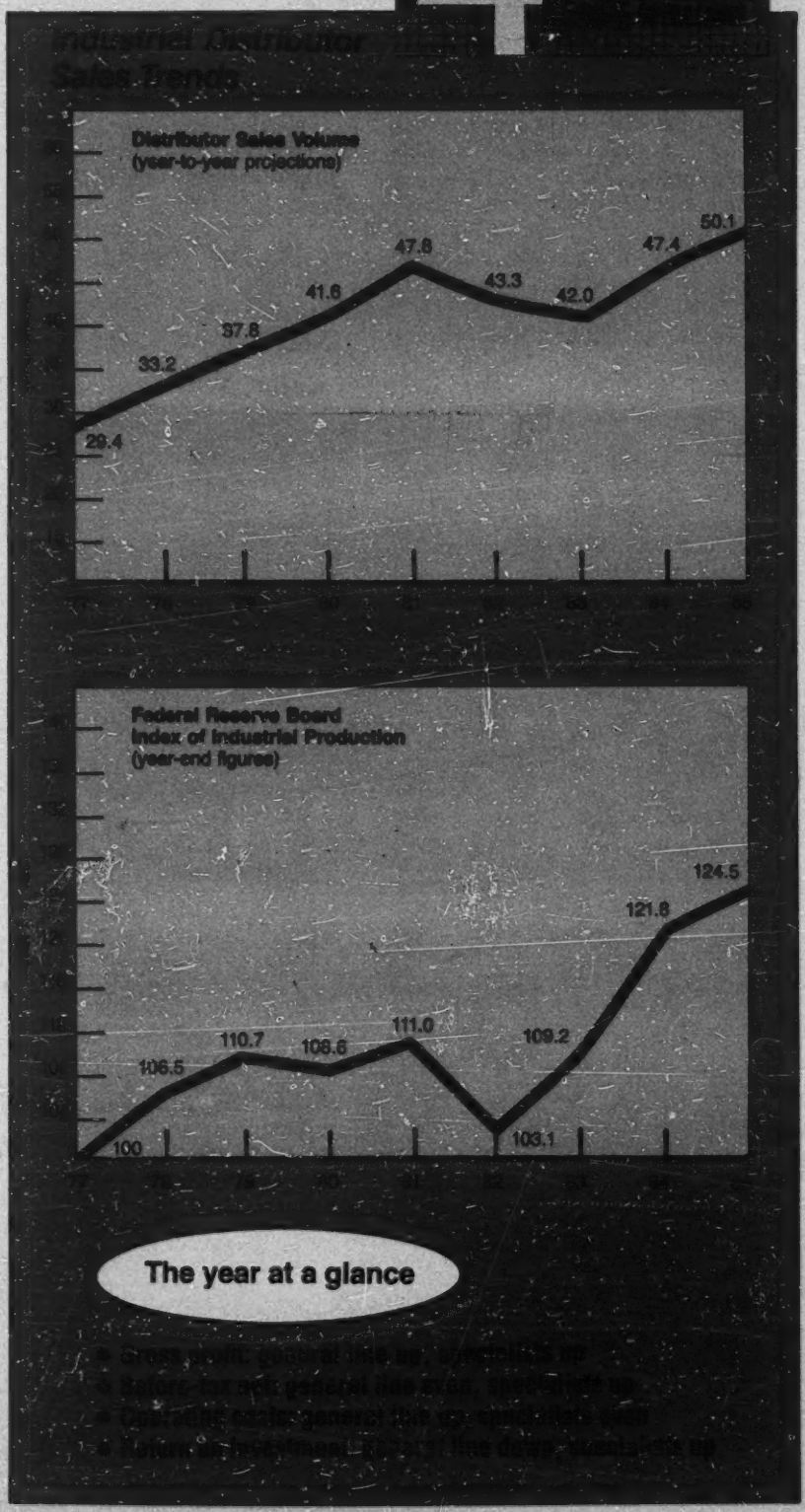
Indicative of the national business climate in 1985 was the meager 2.2% gain in the Federal Reserve Board's *Index of Industrial Production* (see graph), when compared with the 11.5% gain it registered in '84 vs. '83. Although Distributor Sales Volume was up 5.7% at $50.1 billion compared to $47.4 billion in 1984, when adjusted for an approximate 3% inflation rate, the gain is pared to only 2.7%.

Overall examination of business figures such as gross profit, net profit before and after taxes, and return on investment, reveals that specialists fared better than general line distributors. This difference surfaces throughout the survey in almost all categories, stock turns being one of the few exceptions. For complete business data see *Profit and Loss*, *Operating Costs*, *Inventory Data*, *Business Trends* and *Personnel Statistics* graphs and analyses.

Profit squeeze

In addition to foreign competition coupled with the high U.S. dollar driving down the cost of imported products, a further decline in inflation made price increases hard to justify. In order to increase profits, many distributors concentrated on cutting their operating costs, computerized additional business functions (see *Computer Data*), and put a freeze on hiring. These were the *in* things to do in 1985, but nevertheless, increased profits proved elusive. With many manufacturing areas sluggish, demand for OEM and MRO products were off (although products related to the defense industry were generally in high demand).

Distributors tried to increase their sales volume by either starting or increasing system selling programs. About 33% of general liners and 25% of



specialists were involved in some type of system selling program in 1985, each figure up nearly 10% from 1984. Obviously not all were successful, as of this total, the largest number or about 35% reported that their effort resulted in bringing in business which accounted for only 5 to 10% of total sales. The next 20% reported 10 to 20% of total sales were system selling related; 6.5% indicated up to 30% of their sales included-systems selling. Further business expansion, it turned out, was not to be for most distributors in 1985, but put off, or considered in 1986.

Tempered optimism

In 1986, despite the disappointment following the poor first quarter, a firm but tempered optimism was revealed in the section of the survey on planning.

Nearly half of the respondents forecasted double digit sales increases in 1986, representing virtually all regions of the country, as indicated below. The predictions were lower by 2 percentage points from those forecasted for 1985. Price increases were also set lower for this year.

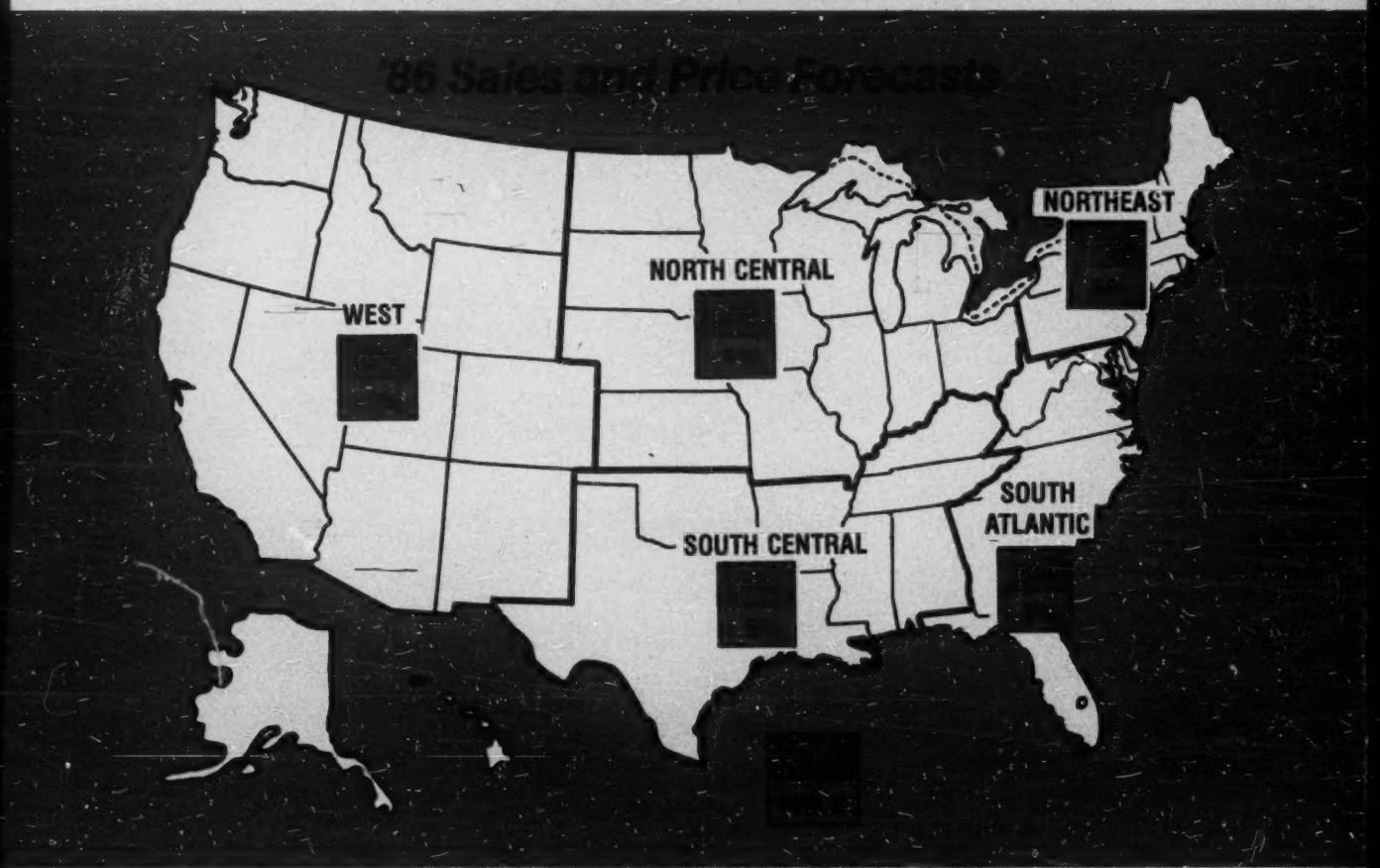
Of the mixed predictions of the remaining 50%, the next largest category, 28%, predicted sales increases under 10%, with the next category coming in at 0 to -10%. Price increase figures were unanimous in the 5% range.

Further 1986 predictions indicated slight increases in full time employees, number of salesmen and warehouse space, all less than the bullish predictions of last year. For complete data, see *Personnel Statistics* and the regional breakdown under *Condensed table for comparison and analysis*.

Included for the second year is a separate survey for combination houses which immediately follows the industrial distribution survey.

Medians and averages

All percentages used in this survey are medians, unless otherwise specified. The median number is the number which is larger than or equal to half of the other numbers, and equal to or smaller than the other half. In series 4, 4, 5, 7, 10, the median is 5. The average of this series is 6 (30 divided by 5). The median number is more representative of a group being surveyed because it will not be distorted by either extreme: very large or very small numbers.



Profit and loss

Gross profit rose slightly for general liners in 1985 (1.1%), with other profit and loss statistics either flat or down; gross profit for specialists, on the other hand, were up (3.8%), with other profit and loss statistics either flat or up.

Net profit before tax was even for general line houses and up 12.8% for specialists in 1985, with net profit after tax showing a drop of 8.7% for general liners contrasted with a sharp rise of 21.9% for specialists.

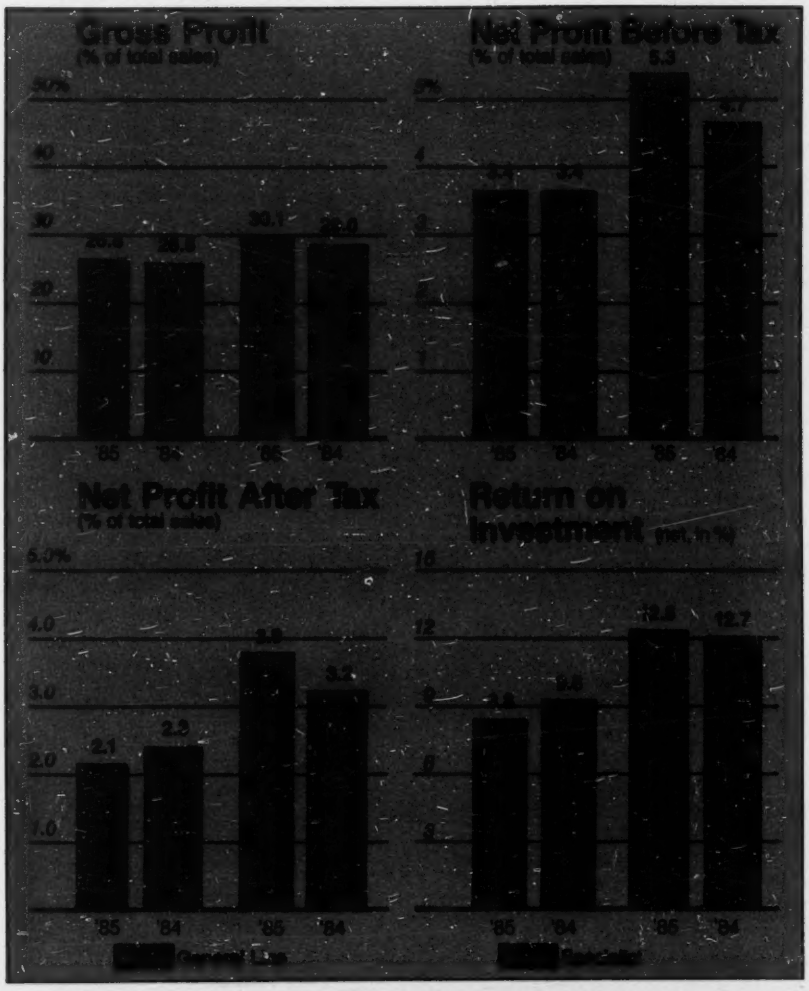
Return on investment figures followed a similar pattern with general line houses down 8.3%, and specialists showing a slim rise of 0.8%. This contrasts with ROI's in the plus 9% range in 1984 vs. 1983.

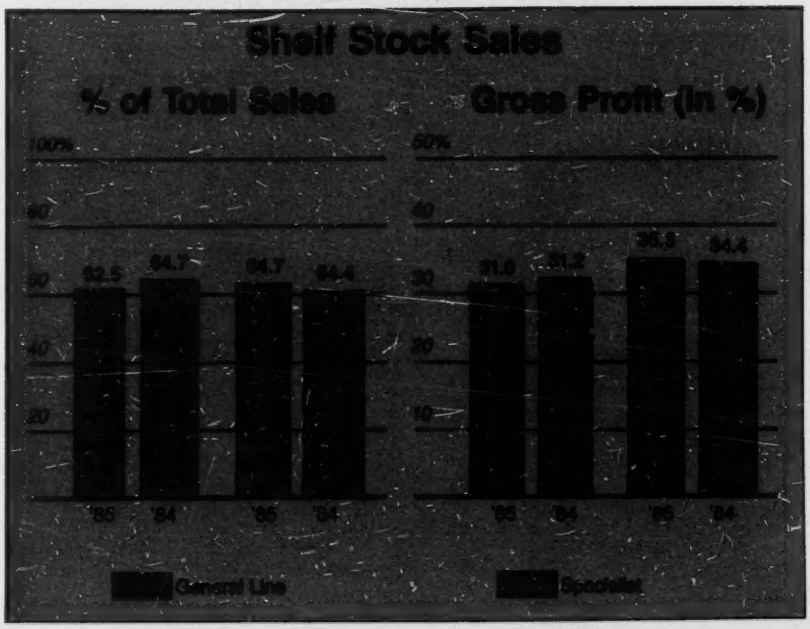
Shelf stock sales as a % of total sales has remained, in magnitude, similar the past several years, in the low 60's for both general liners and specialists; however, the specialists continue to fare better being up 0.5% while general liners fell 3.4%, 1985 compared to 1984.

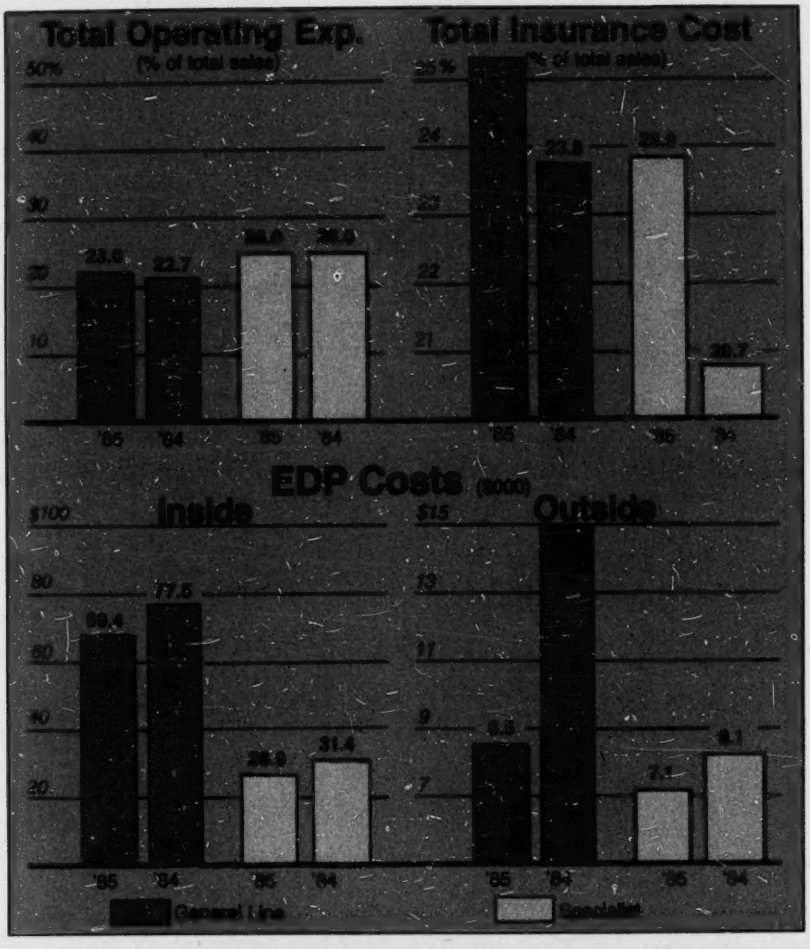
Gross profit for shelf stock sales, as a % of total sales, was down 0.6% for general liners, and up 2.6% for specialists.

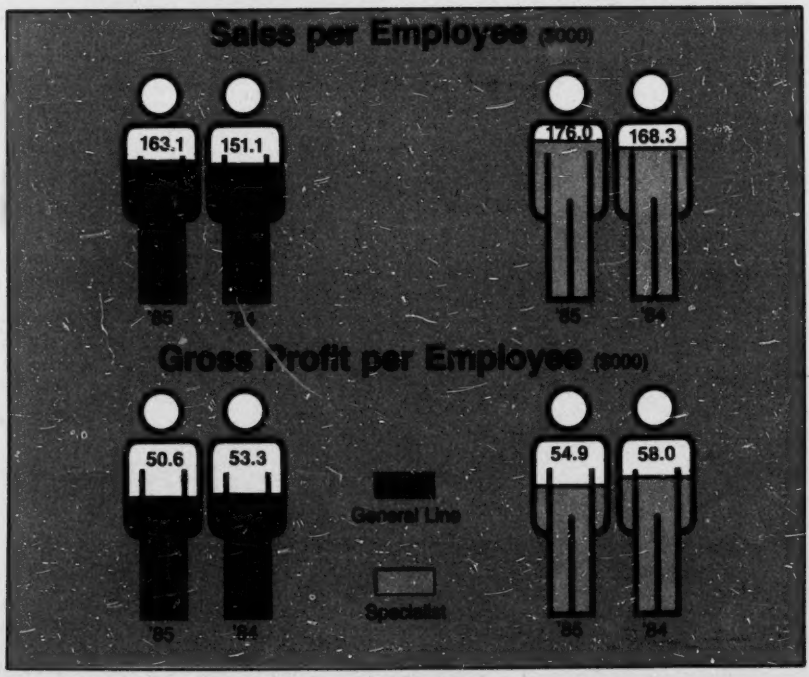
Combined regional figures (with few exceptions) follow the national statistics. Regional differences between general liners and specialists (not broken out in this report) also follow the separation for the national figures with specialists outperforming general line houses.

Because operating costs, insurance, and total compensation (payroll + fringes) did not appreciate for general liners out of proportion to figures for specialists, it appears that business conditions alone accounted for the differences.









Operating Costs

Total operating expenses rose 1.3% for general liners in 1985, while staying even for specialists. Although insurance costs rose, EDP costs fell by a greater amount.

Total insurance costs as a % of total sales rose 4.7% for general liners and 15.5% for specialists in 1985. Distributors indicated that part of the rise was due to increased product liability insurance. Specific amounts paid for product liability insurance was not included in this survey.

Some 8.5% general liners and 3.7% specialists were involved in product liability suits last year. Although only 16.7% of the general liners and 26.7% of the specialists reported being sanctioned, the penalty amounts were up substantially over 1984. General line distributors paid $20,000 in 1985 vs. $2500 in 1984; specialists paid $12,500 in 1985 vs. $8000 in 1984.

Despite a rise in computer usage in 1985 (see Computer Usage), EDP costs fell by cutting that distributors were not spending much money on new systems and peripheral equipment. EDP inside costs fell 10.4% for general liners while dropping 8% for specialists. EDP outside costs fell 45.5% for general liners and 4% for specialists.

Sales per employee figures were on the positive side for both general liners and specialists, rising 7.9% and 4.6% respectively. However, gross profit per employee figures did not fare well. General line figures fell from $54,900 in 1984 to $50,600 in 1985. Specialists fell from $55,500 in 1984 to $53,000 in 1985. Further data is provided on employees under *Personnel Statistics*.

Inventory Data

Figures were revised in 1985 for average monthly inventory and stock turns, while both general lines and specialties saw receivables rise and collections fall.

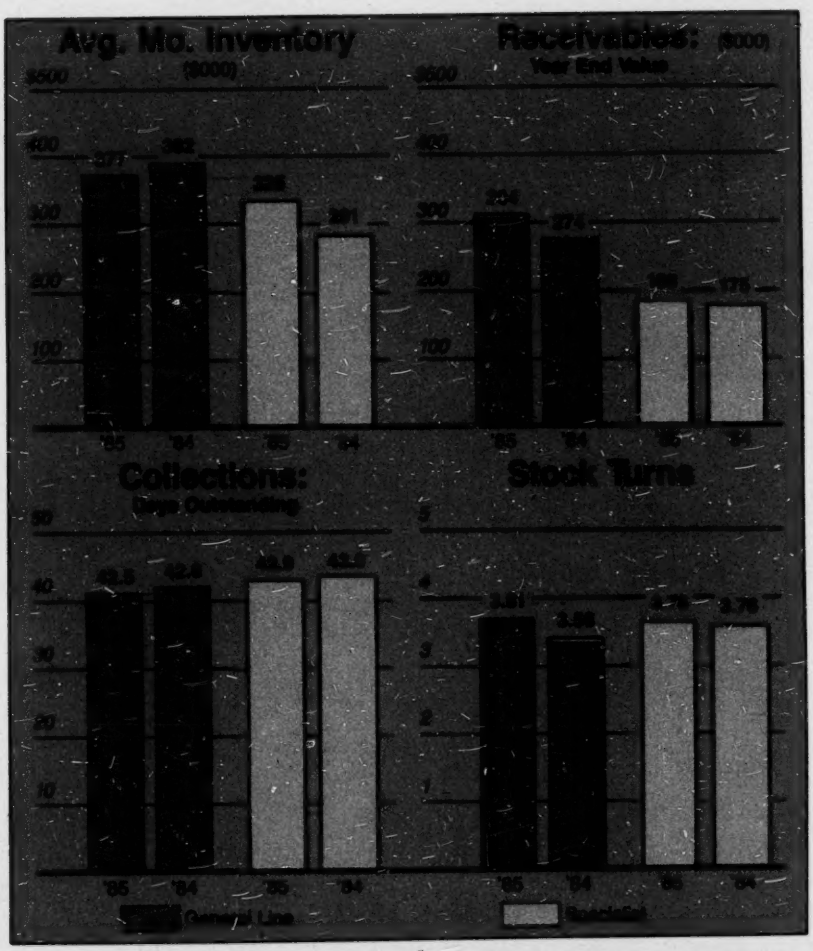
Average monthly inventory values dropped 4.3%, or $39000 for general lines and rose 12.7%, or $34,000 for specialties, 1985 compared to 1984. Of the five regions covered in the [illegible] Table (p. 47), three were down (South Atlantic, South Central and West) and two were up (Northeast and North Central).

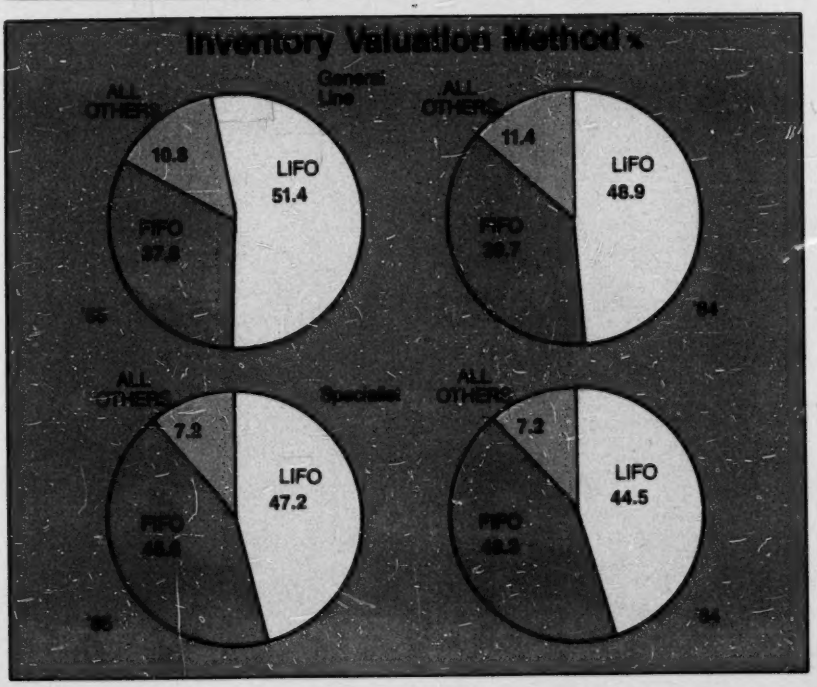
Receivables increased 10.9% for general lines and 7.8% for specialties, 1985 against 1984, while collections (days outstanding) fell for each, 0.7% and 0.23% respectively.

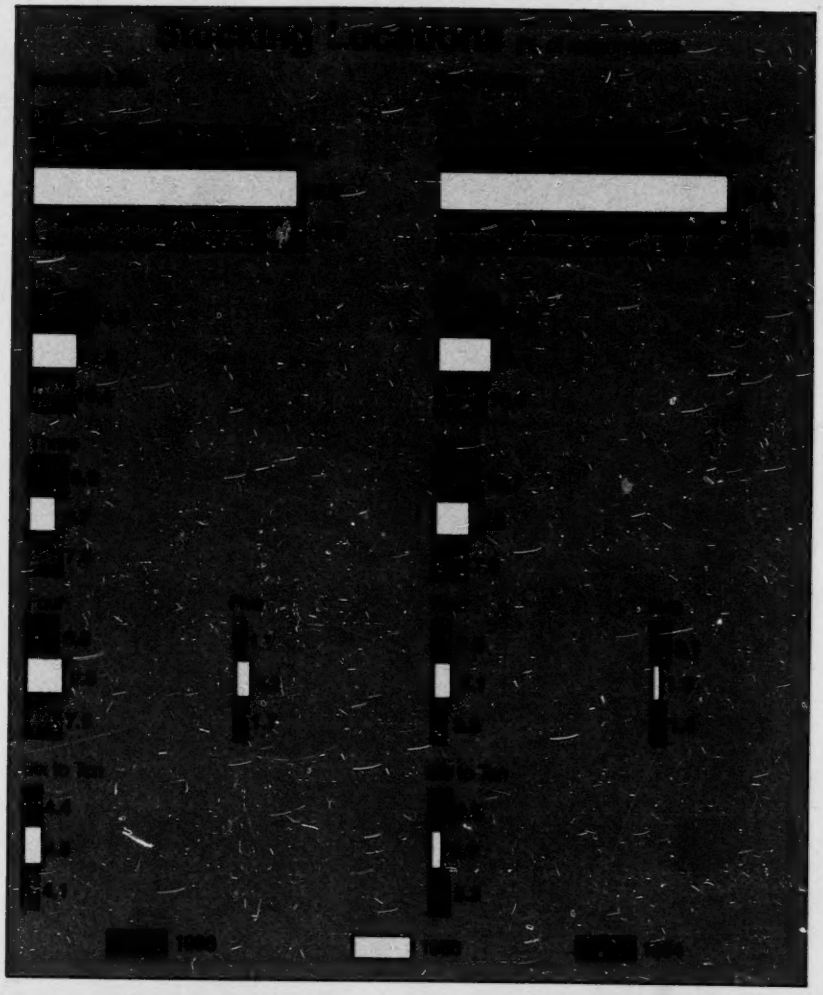
The figures for stock turns were mixed with general lines up 0.8% in 1985, while specialties were flat. (Stock turns were calculated by multiplying the percent of sheet stock sales at cost by total sales, and dividing the result by the average monthly inventory value).

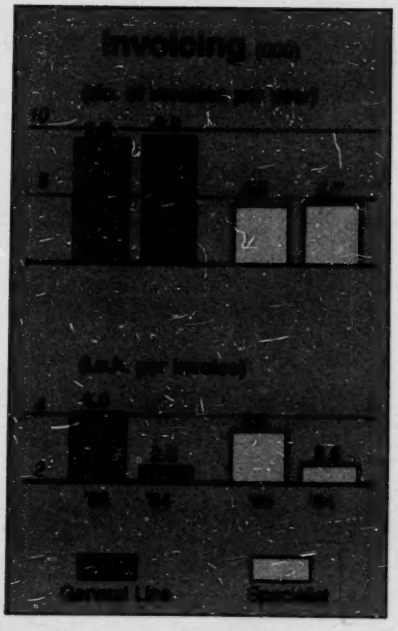
Although there does not appear to be the historic change between FIFO and LIFO users, 1985 compared to 1984, the trend had been to FIFO since 1983. This has slipped slightly as LIFO usage has increased 3.1% for general lines and 6.1% for specialties, 1985 compared to 1984. FIFO fell 2.4% and 3.4% for general lines and specialties respectively.

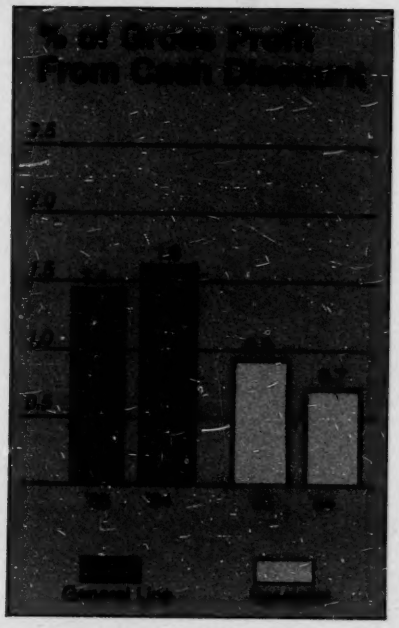
Complete reports of the 40th Survey of Distributor Operations & report forms are available. For more information, see page 48.

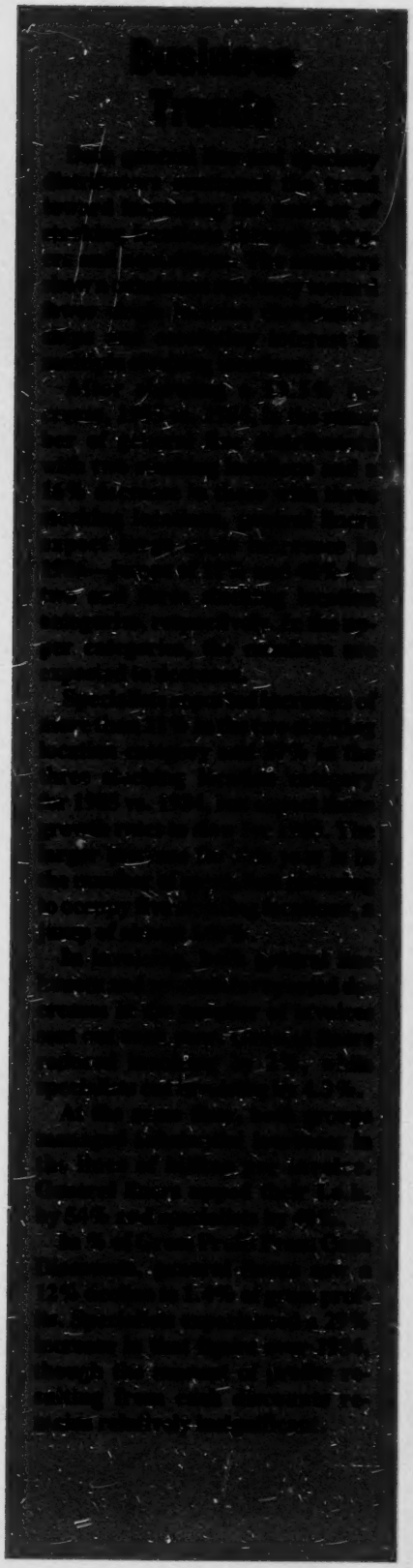


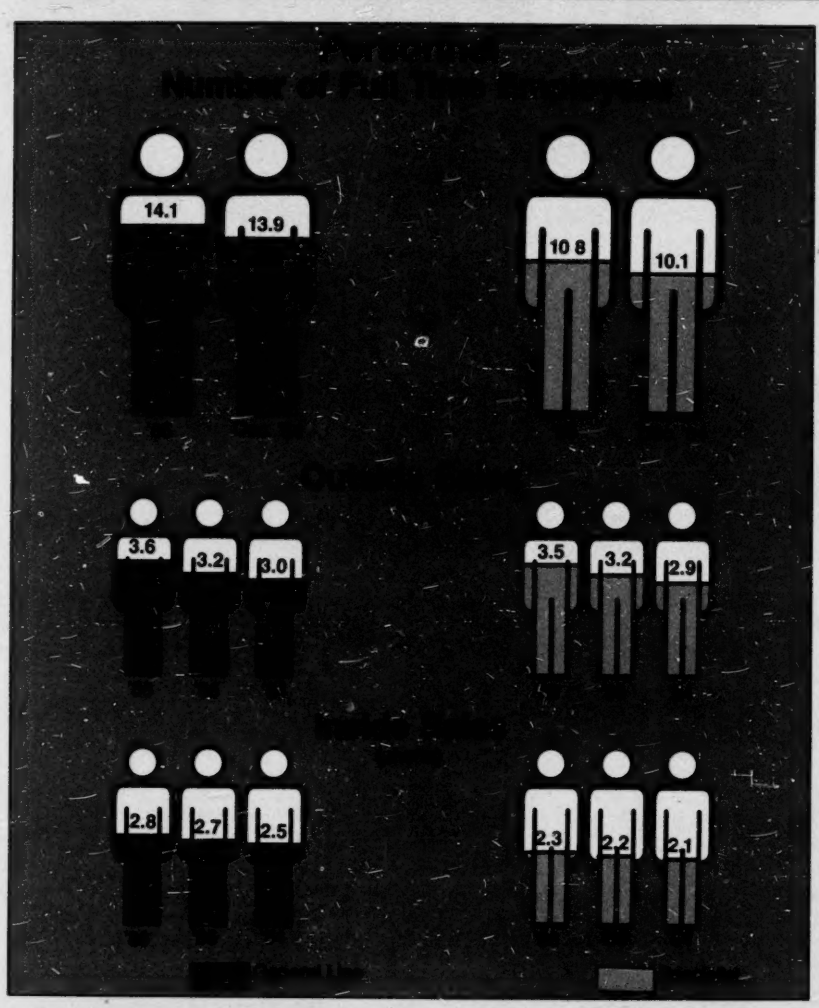





Invoicing (000)
General Line
Specialties


% of Gross Profit From Cash Discounts
General Line

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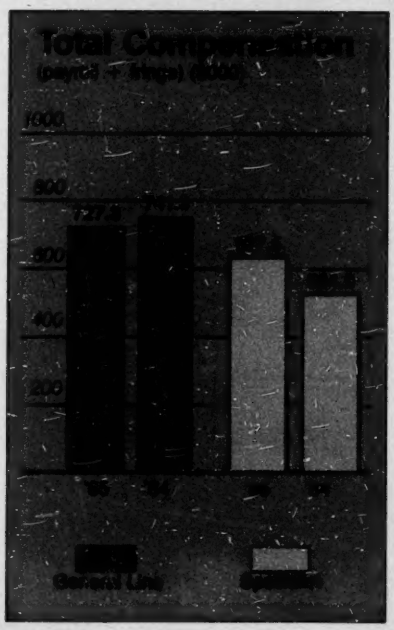
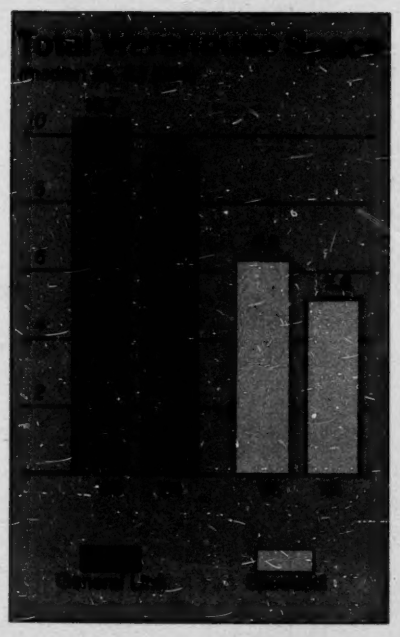
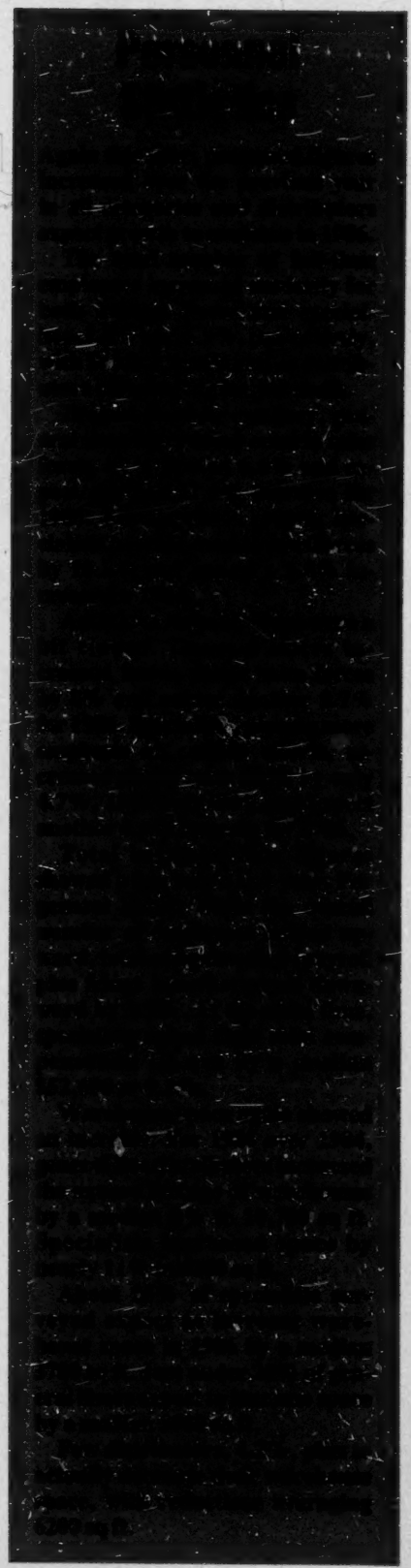






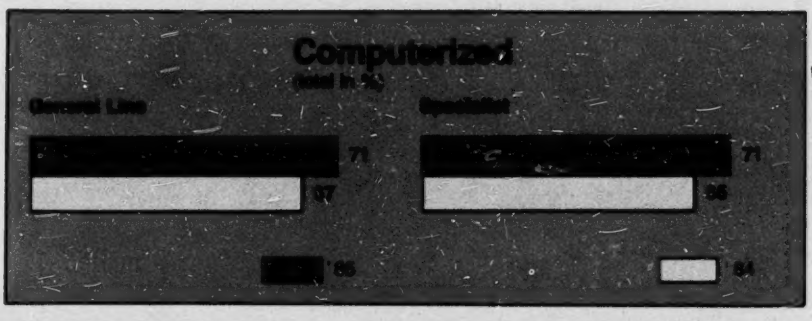
Computer Data

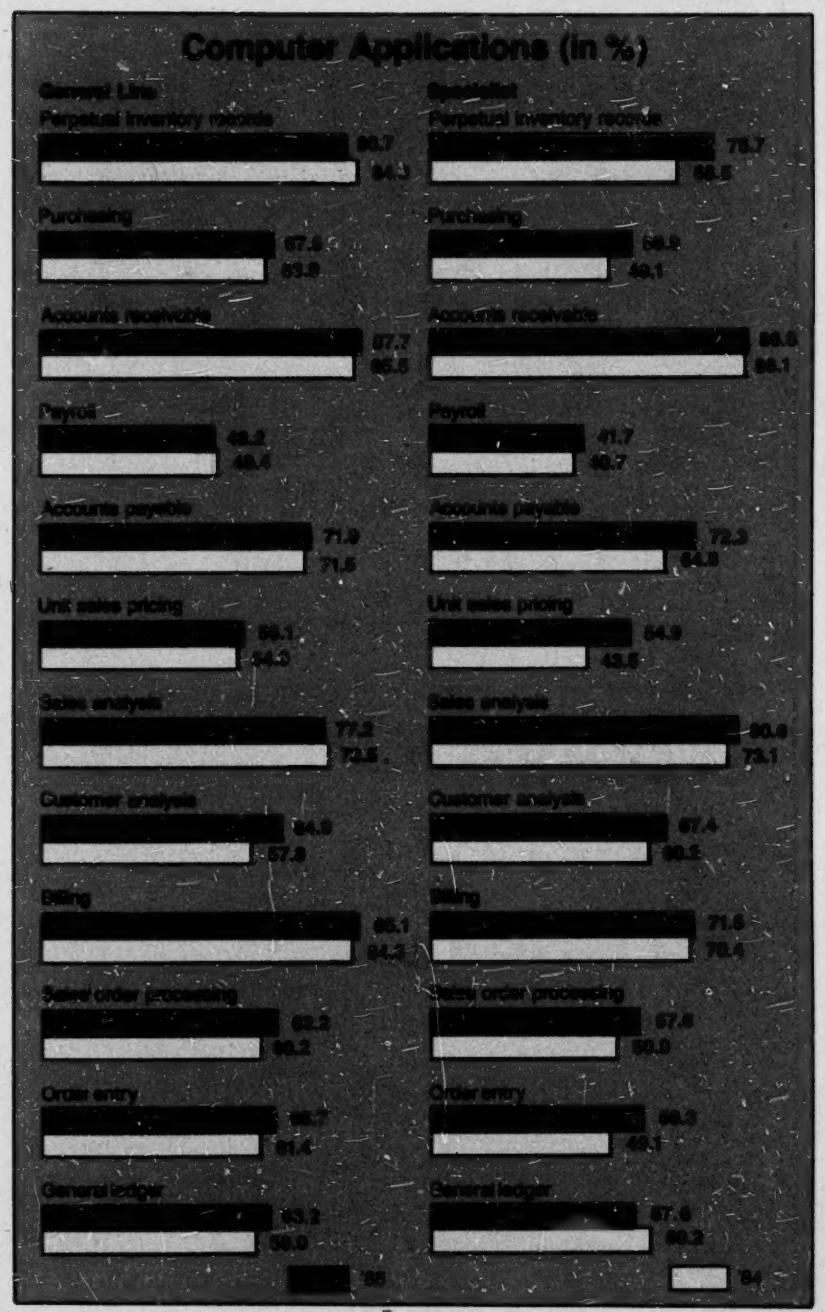
The use of computers by industrial distributors increased again in 1985, as did overall applications. However, hardware purchasing and software licensing were down in 1985 compared to 1984, according to Computer Corp., which issues extensive reports covering the use of computers and data processing equipment by industrial distributors and manufacturers.

The general line distributors surveyed in 1985 (up from 1984) computerized 71% of their sales transactions, up from 67% in 1984. Specialty distributors computerized 71% of their sales transactions, up from 66% in 1984. Although the increases were appreciable, they were not as great as those in 1984 over 1983 figures.

Most of the applications showed gains in computer usage, 1985 over 1984. The largest gain for general lines was 13.3% for the customer analysis function, while order entry showed an 8.6% decline. The application showing the greatest gain for specialty distributors was perpetual inventory records, up 6.6%, while purchasing showed a 2.4% decline. Unit sales pricing showed a 5.8% gain for specialty distributors, while billing showed a 5.6% decline. Only one function showed a decline for general ledger, purchasing.

Where computers are used, electronic processing has also shown rapid growth. For general lines, the gain was from 17.3% in 1984 to 36.3% in 1985, or 36.3% for specialists, the gain was from 34.3% in 1984 to 48.3% in 1985, or 17.8%. These figures are expected to grow sharply in the next few years as greater numbers of distributors turn to their own in-house computers, terminal and printing capabilities through the easy addition of software and peripherals.





Condensed table for comparison and analysis

	National '85	National '84	Your figures	Northeast '85	Northeast '84	Your figures
Total sales ($ millions)	2.0	1.8		1.8	1.6	
Cost of goods sold (% of total sales)	71.2	72.4		72.5	73.9	
Gross profit (% of total sales)	28.2	27.6		27.1	27.2	
Total operating expenses (% of total sales)	24.8	24.5		23.0	22.8	
Net profit before tax (% of total sales)	4.4	4.1		2.7	3.0	
Net profit after tax (% of total sales)	3.0	2.7		1.7	1.9	
ROI (return on net worth)	10.4	10.9		5.5	6.9	
Sales per employee ($000)	160.0	150.0		155.5	144.1	
Gross profit per employee ($000)	45.1	41.4		42.4	39.2	
Monthly inventory value (LIFO, $000)	357.0	342.0		343.0	325.0	
Receivables value as of Dec. 31 ($000)	233	197		210	239	
No. days outstanding at Dec. 31	42.6	42.8		43.5	43.6	
No. of invoices billed (000)	6.7	6.9		7.0	6.8	
No. of lines billing per invoice	3.6	2.5		3.4	2.3	
No. of employees	12.5	12.0		11.5	11.1	
No. of outside salemen	3.2	2.9		3.3	3.0	
No. of inside salemen (phone and counter)	3.8	3.7		3.8	3.3	
Warehouse sq ft. (including branches, 000)	7.9	7.6		9.2	8.2	
No. of branch locations	1.3	1.2		1.2	1.1	
Total payroll and fringes (avg., $000)	666.5	643.5		547.3	529.3	

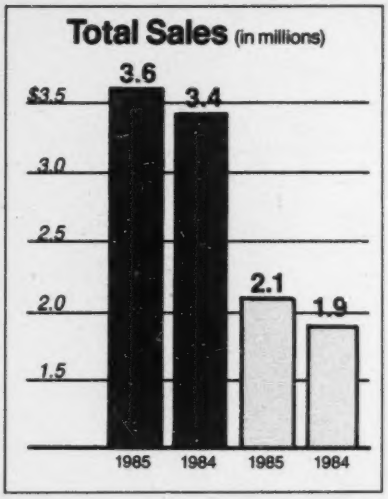
	South Atlantic '85	South Atlantic '84	Your figures	North Central '85	North Central '84	Your figures
Total sales ($ millions)	1.9	2.0		2.8	2.5	
Cost of goods sold (% of total sales)	70.7	73.1		72.1	72.3	
Gross profit (% of total sales)	30.0	26.9		28.9	26.3	
Total operating expenses (% of total sales)	24.7	23.7		23.8	24.6	
Net profit before tax (% of total sales)	4.2	3.7		5.1	4.4	
Net profit after tax (% of total sales)	3.3	2.7		3.6	2.9	
ROI (return on net worth)	15.3	15.2		9.7	10.5	
Sales per employee ($000)	131.0	163.9		227.6	201.6	
Gross profit per employee ($000)	39.3	44.1		61.2	53.0	
Monthly inventory value (LIFO, $000)	650.0	738.0		325.0	240.0	
Receivables value as of Dec. 31 ($000)	300	283		317	230	
No. days outstanding at Dec. 31	42.0	40.6		42.7	43.3	
No. of invoices billed (000)	12.9	10.0		6.1	6.9	
No. of lines billing per invoice	3.4	2.6		3.6	2.6	
No. of employees	14.5	12.2		12.3	12.4	
No. of outside salemen	3.3	3.1		3.4	3.3	
No. of inside salemen (phone and counter)	4.8	4.5		3.7	3.5	
Warehouse sq ft. (including branches, 000)	7.0	6.0		7.9	7.7	
No. of branch locations	1.3	1.3		1.3	1.3	
Total payroll and fringes (avg., $000)	1232.4	1193.2		616.5	598.1	

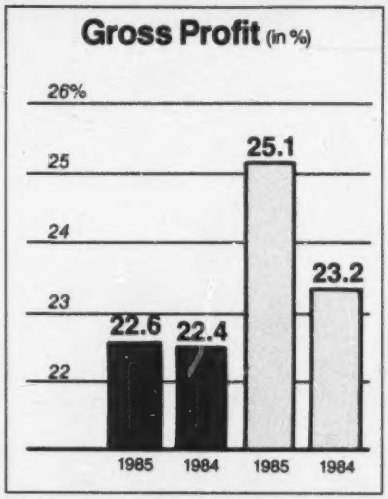
	South Central '85	South Central '84	Your figures	West '85	West '84	Your figures
Total sales ($ millions)	1.8	1.4		1.7	1.8	
Cost of goods sold (% of total sales)	71.6	73.7		67.3	67.7	
Gross profit (% of total sales)	27.9	28.1		32.0	31.6	
Total operating expenses (% of total sales)	25.3	24.5		28.1	27.7	
Net profit before tax (% of total sales)	3.4	3.3		5.5	5.2	
Net profit after tax (% of total sales)	2.9	2.3		3.5	3.3	
ROI (return on net worth)	13.5	8.5		10.4	16.0	
Sales per employee ($000)	136.5	116.7		149.1	150.0	
Gross profit per employee ($000)	38.6	32.8		47.7	47.4	
Monthly inventory value (LIFO, $000)	317.0	325.0		333.0	380.0	
Receivables value as of Dec. 31 ($000)	193	133		177	188	
No. days outstanding at Dec. 31	41.3	39.7		43.1	43.8	
No. of invoices billed (000)	5.6	5.0		6.9	7.7	
No. of lines billing per invoice	4.2	3.1		3.3	2.0	
No. of employees	13.0	12.0		11.4	12.0	
No. of outside salemen	3.0	2.6		3.0	2.8	
No. of inside salemen (phone and counter)	3.9	3.9		4.3	4.3	
Warehouse sq ft. (including branches, 000)	6.5	6.0		6.4	7.9	
No. of branch locations	1.2	1.2		1.3	1.2	
Total payroll and fringes (avg., $000)	519.0	508.8		676.7	640.8	

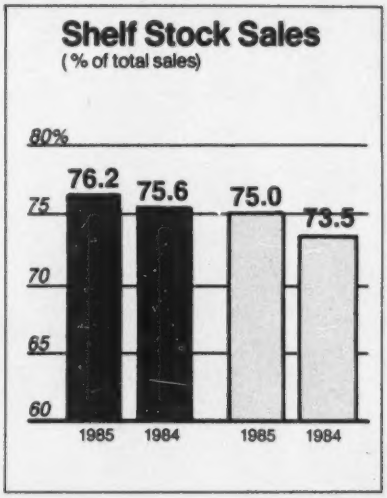
Note: All figures are in medians, except where averages are specified.

SURVEY CONTINUES ON NEXT PAGE

40th ANNUAL SURVEY OF DISTRIBUTOR OPERATIONS







Combination Houses

While the previous section focused on the general line and specialist firms that qualified under ID's strict criteria for industrial distributors, this section, Combination Houses, deals with those firms that sell a substantial volume of supplies to industry, plus products not generally considered purely industrial, such as automotive parts, wholesale electric, and plumbing and heating supplies.

As a whole, combination houses saw sales increase by 7.2% for 1985 over 1984, while combined gross profit figures grew at only 5.8% (not plotted graphically). The figures also reveal that specialty combination houses substantially outperformed the general liners.

In terms of median sales, specialists saw increases of 10.3%, or from $1.9 million to $2.1 million, '84 to '85. For the same period, general line sales rose a more modest 5.9% (see graph).

A similar spread showed up in gross profit figures. Specialists' profits grew by 8.1% from 1984 to '85, while general line profit growth stalled at less than 1%. Western states houses were the most profitable in '85 with a median gross profit of 26.6%. North Central houses managed a 22.5% gain compared to the national median of 23.9%.

Strong performance gains for the last two years coupled with low interest rates, falling oil prices, improved auto sales and a boom in housing starts appears to have given some optimism, especially across the specialty houses, where 45% expect to expand operations in '86 compared to 32% of general liners.

Also, for the second year in a row, specialty houses have reported average monthly inventory valuation gains of 100% than 1%, while general liners posted another decline in inventory value, a 6.6% drop from 1984 to '85.

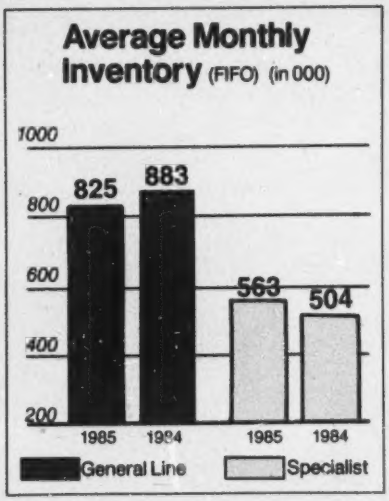
Specialists have also shown stronger growth in the number of full-time employees taken on over the last year, up 5.6%, from 14.4 to 15.2 employees. Much of that growth was in the outside sales force with an 8.3% increase (from 3.6 to 3.9). The inside sales force for specialists remained constant and is expected to decrease slightly in 1986.

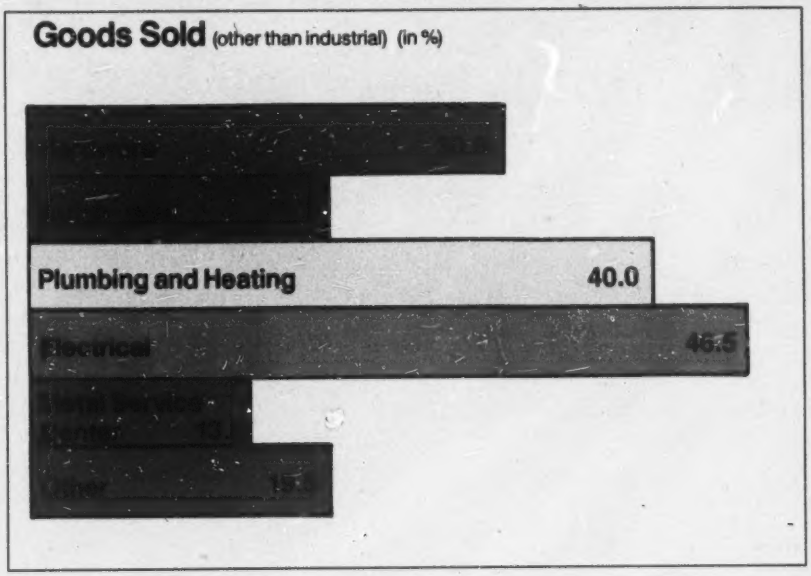
General liners, on the other hand, trimmed overall work forces by 1.6%, from 25.6 to 25.2. But in terms of numbers of salespeople, they showed more substantial growth with an 11.8% increase in outside and a 15.3% increase in inside salespeople.

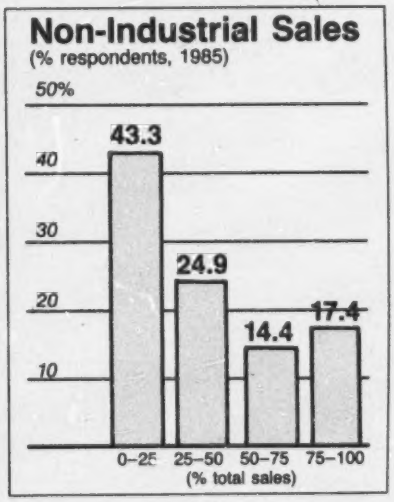
In the warehouse, the combined median dropped from 17,500 sq ft in 1984 to 17,000 sq ft last year. While general liners expanded their facilities nearly 4% to a median 21,800 sq ft, specialists reduced their space by almost 12% to 14,700 sq ft in '85.

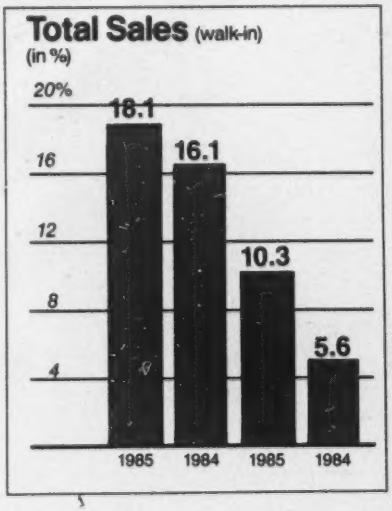
At the same time, shelf stock sales

The complete 40th Annual Survey of Distributor Operations, including combination houses, is available in report form. It contains 235 pages of statistics broken down for detailed analyses and comparisons of industrial distributor business operations on national and regional scales. A single copy is $125. Contact Laurie Schnepf, Research Director, Technical Publishing Co., 875 Third Ave., New York, NY 10022 or call (212) 605-9679.


Average Monthly Inventory (FIFO) (in 000)
1000
800
600
400
200
825
883
563
504
1985
1984
1985
1984
General Line
Specialist


Goods Sold (other than industrial) (in %)
Plumbing and Heating
40.0
Electrical
46.5


Non-Industrial Sales
(% respondents, 1985)
50%
40
30
20
10
43.3
24.9
14.4
17.4
0–25
25–50
50–75
75–100
(% total sales)


Total Sales (walk-in)
(in %)
20%
16
12
8
4
18.1
16.1
10.3
5.6
1985
1984
1985
1984

Stock Turns
4
3
2
3.3
2.9
2.8
2.8
1985
1984
1985
1984
General Line
Specialist

Collections (receivables)
(No. of days)
46
44
42
43.3
43.0
44.6
43.9
1985
1984
1985
1984
General Line
Specialist

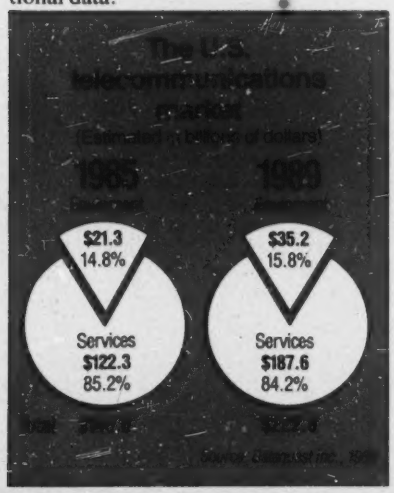
FOCUS ON SERVICES
Telecommunications

From phones that can be dialed by speaking to a system that gives the location of moving vehicles, new telecommunications equipment is inundating the industrial distributor

A scant dozen or so years ago, the typical industrial distributor's involvement with telecommunications was generally limited to an inside salesman using a Western Electric-manufacturerd telephone to call customers over AT&T telephone lines. In addition, perhaps the distributor had a teletype machine which he used to communicate with his branches, customers and suppliers.

Today, however, in the wake of the breakup of AT&T, the provision of long distance service has become hotly competitive with new companies vying for the distributor's business. In addition, court rulings allowing the telephone user to procure phone equipment on the open market rather than being forced to patronize "Ma Bell", has given impetus to dozens of new equipment companies who have rushed in to feed this lucrative market.

In a scene that would have been considered science fiction only a few years ago, distributors are routinely using computers to order directly through the suppliers' computers while salesmen on the road use their cellular car telephones, portable computers and modems to send and access electronic mail from headquarters and to obtain additional data.



Meanwhile, specially trained telemarketing staffs make their electronic "sales calls" over discount long distance networks while a computer dials the number automatically and displays the customer's purchasing history and shipping information.

In Houston, Texas Mill Supply, a large general line distributor, uses facsimile machines linked to cellular telephones and modems in sales vans to communicate with headquarters.

A new device being marketed as "Autotrack" by 800 Cellular, a New York City firm, enables the distributors to instantly obtain the location of any vehicle in his fleet including automobiles. Based upon a system of electronic triangulation in which pulsed signals from two transmitters are used to automatically calculate the vehicle's location, the data is superimposed on a map displayed on a computer screen at the distributor's headquarters.

While cellular telephones have vastly improved upon the voice quality of previous vehicular phone systems, the next frontier in making vehicular phones more useful is automatic dialing through speech recognition.

Audec Corp., a Saddle Brook, NJ firm, for example, markets what it calls the "Vodialer" made specifically for cellular phones. Using this device, it is possible to dial a phone number by speaking the name of the party being called without the need for the driver to take his hands off the steering wall.

A simpler variation on electronic mail—where the user needs a computer terminal, modem and telephone to send or access messages— is phone mail which will grow from virtually nothing a few years ago to an estimated $800 million-plus business by 1990. Phone mail works much like a sophisticated, micro-processor controlled answering machine that can both give and receive messages.

In practice, the caller (who can be in the next office or on the other side of the world) dials a number and then, by dialing in his secret access code, can leave voice messages for any individual in the organization and retrieve any messages left for him. Like electronic mail, phone mail doesn't punch a time clock and is available 24 hours a day, seven days a week.

While still in its infancy after several false starts, videoconferencing is ideally suited to the needs of sales meetings and conferences where the participants are in scattered, distant locations and visual communications is important.

In videoconferencing, attendees assemble at videoconference centers close to their home bases. Audio/video links at each site transmit the picture and sound via a projector system displayed on a screen.

Gaining rapid popularity, is the audio variation of videoconferencing: teleconferencing. Resembling a giant party line, teleconferencing allows any number of participants in any location with access to a telephone to participate. AT&T recently introduced such a service under the name "Alliance."

In more ambitious applications, conferees gather in pre-determined locations with an amplified audio link connecting the various sites.

As the pace of telecommunications technology accelerates each year (see chart), the distributor of the future may find himself presiding over an electronic wonderland that makes his business at once both more efficient and less expensive to operate.—**Doug Harper**

The Survey of Distributor Operations in this issue shows that fewer than 30% of the respondents have computerized telecommunications, but more than 46% include it in their plans. Question: with the marketplace demanding precise reaction time to order processing, can distributor hold-outs compete without* incorporation of *EDP/communications systems?

—George Berkwitt